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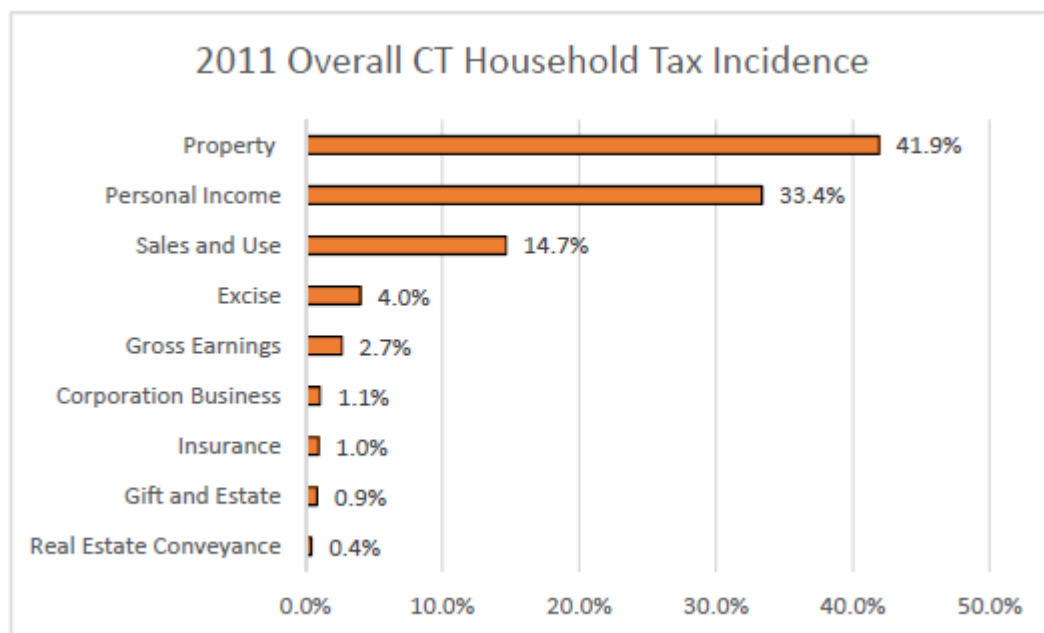
Testimony in Support of SB 1: An Act Concerning Tax Fairness and Economic Development

3/17/15 – Testimony by Roger Senserrich

Good morning Senator Osten, Representative Miller and members of the Planning and Development Committee. My name is Roger Senserrich, and I am the Policy Director at the Connecticut Association for Human Services (CAHS). CAHS is a statewide non profit agency that works to reduce poverty and promote economic success through both policy and program work.

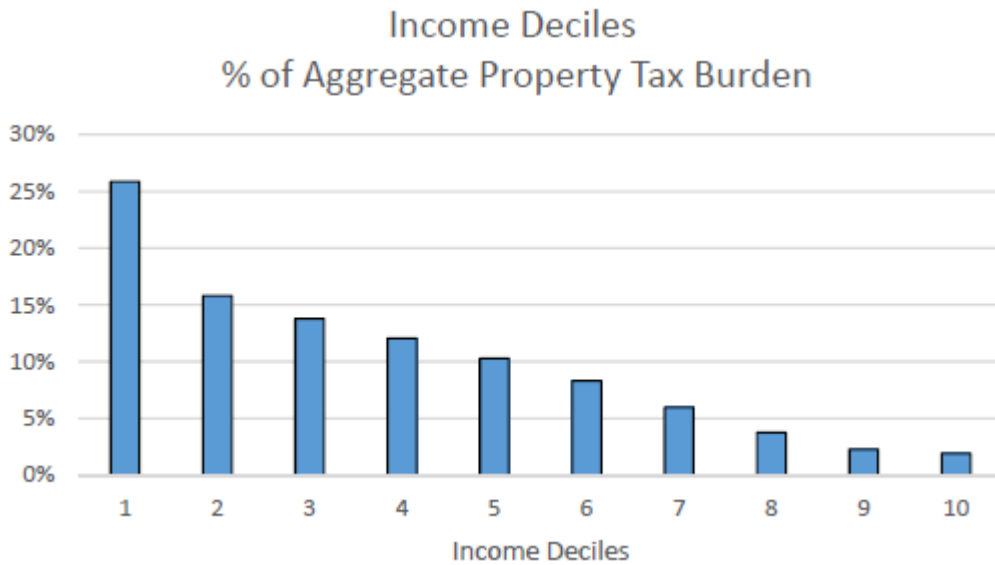
I am here to express our strong support to SB.1, a bill that would introduce some significant and necessary changes to Connecticut's property tax system, making it more fair and efficient.

The property tax raises the lion's share of public revenue in the state, covering 41.9% of all taxes paid by Connecticut Householdsⁱ in 2011.



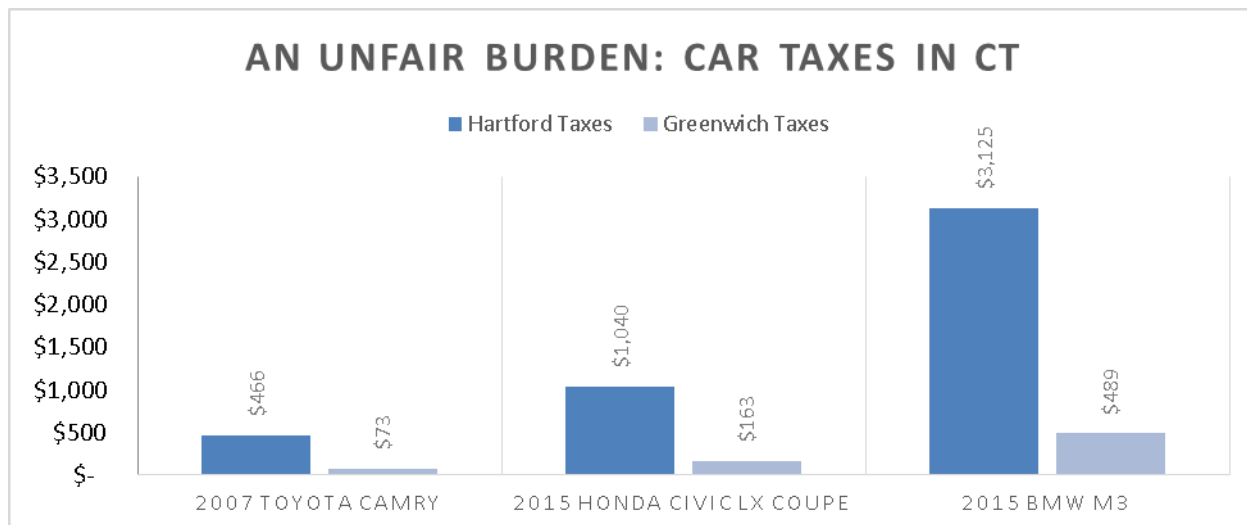
Property taxes are fairly progressive within a town, as property values are closely aligned with wealth. Connecticut's municipalities, however, are very different from each other; due to the state's marked income and racial segregationⁱⁱ, wealth is often concentrated by town, with city limits marking very large disparities. As a result, the mill rates tend to be lower in wealthier towns, and higher in poorer cities, as their grant list includes older, smaller housing stock and commercial properties, and more tax exempt institutions.

This makes Connecticut's property taxes very regressive: households on the top 10% of the income distribution pay less than 1% of their income in property taxes, while those in the bottom 10% pay more than 12%ⁱⁱⁱ:



To partially address these disparities, S.B.1 contains three reforms: **a state wide motor vehicle tax**, Payment on Lieu of Taxes (**PILOT**) **reform**, and the creation of **a regional tax base revenue system**. The first piece, car taxes, would immediately provide relief to low income households and make property taxes less regressive. The other two components will introduce welcome structural changes with the potential of rebalancing the system and fostering smarter economic growth.

The current motor vehicle property is collected by municipalities, each establishing their mill rate. This produces wide disparities: the ratio between the town with the lowest tax rate (Greenwich) and the highest (Hartford) is 6.7. This means that the same car, from the same year, make and model, is burdened by 6.7 times more taxes just due to the city its owner lives in. This produces results like the graph below – a 2007 Toyota Camry would pay the same taxes in Hartford than a brand new BMW M3 in Greenwich.



To address this issue, S.B.1 creates **a state wide motor vehicle tax** with a \$3,000 exemption. As written, the legislation would hold the municipalities harmless in terms of revenue, as the funds would be distributed using

based on 2014 funding levels. This change, paired with the exemption, would translate in lower tax burdens for most taxpayers, and a dramatic reduction of tax burden disparities by income.

S.B.1 also introduces some significant **changes on Connecticut's PILOT program**. Under current law municipalities with tax exempt college and hospital property are entitled to receive grants from the state covering 45% of their value. In practice the Legislature has never appropriated enough funds to cover all payments; grants are usually below 30% of lost revenue. Currently funding reductions are allocated equally between all municipalities, without addressing need. As a result, towns with a higher proportion of tax exempt property lose significantly more revenue.

The proposed legislation changes how reduced PILOT grant funding would be distributed, giving higher priority (and a higher reimbursement rate) to the towns that have the highest proportion of non taxable property. In addition, properties owned by non-profits are taken into account to determine the percentage of tax exempt property. S.B.1 also establishes 2014 as baseline for PILOT payments – no municipality would see their grant reduced due to these changes from what they received last year. All in all, is a very positive change on how PILOT funds are allocated, ensuring that state funds target the cities and towns that support most of Connecticut's hospitals and colleges.

The third component of S.B.1 is the establishment **of a regional property tax base revenue system for commercial and industrial property**. The framework is largely similar to the very successful Minnesota Metropolitan Revenue Distribution model^{iv}, established in 1971 in the Twin Cities region. Under this framework each community contributes 40 percent of the growth of its commercial and industrial property tax base after a specific year (1971 for the Twin Cities, 2013 under S.B.1) to a regional pool. The funds are redistributed based on a formula that takes into account a jurisdiction's population and fiscal capacity, as defined as per capita real property valuation.

According to former Minnesota State Representative Myron Orfield, an expert on regional revenue-sharing, the system has reduced tax-base disparities among Twin Cities' communities from 50:1 to roughly 12:1^v. The system has not eliminated disparities, because 60% of any new revenue from commercial development remains in the host community. The Metropolitan Council reports the program has led to twice as many cities gaining revenue (119) than those cities losing revenue (61). Approximately 32 percent of the region's commercial/industrial tax-base is shared, making up 10 percent of the region's total tax base.

The impact of this reform goes beyond revenue, as it reduces the incentives for municipalities to compete for new development to shore up their tax bases. Under S.B. 1 cities and towns would be able to plan on a regional level, placing a stronger focus on smart growth. As any new development would benefit the region as a whole, with the town hosting the new development receiving additional revenue to pay for their costs, municipalities can work together to protect open spaces, focus on infill development and placing new projects close to infrastructure hubs.

This legislation would give rural communities and suburbs the tools to preserve their character, as they no longer need to attract development at any cost to expand their grant list, while also enabling cities to attract new development more effectively. Connecticut metropolitan areas would be able to rebalance their growth patterns between the core and outer areas, avoiding the harmful tax competition that penalizes the

municipalities with poorer grant lists. S.B.1, as written, has the potential to help reverse decades of underinvestment in our cities and urban sprawl while ensuring that no municipality is left behind.

Concluding, CAHS strongly supports S.B.1. We believe that it contributes make the property tax system more fair, ensures that resources are targeted to the cities and towns that need them the most, and creates a powerful system of regional planning and development that promotes smart growth across our metro areas, all while holding local budgets harmless.

Thanks for your time today.

ⁱ Department of Revenue Services, 2014 “Connecticut Tax Incidence” Report. Available at <http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf>

ⁱⁱ <http://cahs.org/background-research-concentrated-poverty/>

ⁱⁱⁱ Directly, through direct taxes, or indirectly, through higher rents.

^{iv} Chapter 473F of Minnesota statutes; available here: <https://www.revisor.mn.gov/statutes/?id=473F>

^v Orfield, M., Wallace, N. (2007) “The Minnesota Fiscal Disparities Act of 1971: The Twin Cities' Struggle and Blueprint for Regional Cooperation” William Mitchell Law Review, 33:2, p.591-611